Financing the Future: Building a Fiscally Sustainable Student-Financing Model to Expand Access to Higher Education in South Africa

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1. Introduction

Higher education is both a route to social mobility and an investment in productive capacity. Yet in South Africa, tuition, accommodation, food, transport and learning materials remain unaffordable for many households. The policy challenge is twofold: widen access for capable students while ensuring that public support does not become an uncontrolled claim on the national budget.

This literature-based essay proposes a differentiated funding model, costs it under transparent assumptions and evaluates lessons from Australia, England and Chile. Section 2 defines the problem, Sections 3 and 4 propose and cost the model, Sections 5 to 7 draw on international experience, university funding and objections, and Sections 8 and 9 conclude and recommend. Sources are government documents, official statistics and policy literature; costings are illustrative. It argues that sustainability requires grants for students who cannot repay, carefully designed income-contingent loans, limited public guarantees, adequate institutional funding and support for completion.

2. Defining the financing problem

NSFAS bursary eligibility is generally linked to gross household income of R350,000 or less a year, while the missing-middle loan category covers undergraduates from households earning above R350,000 and up to R600,000 (NSFAS, n.d.).

The 2024 Comprehensive Student Funding Model announced initial capitalisation of R3.8 billion (R1.5 billion from the National Skills Fund and R2.3 billion from SETAs), estimated to support 31,884 of 68,446 identified missing-middle students (Department of Higher Education and Training [DHET], 2024). A once-off injection cannot sustain a system: it needs predictable multi-year funding and transparent estimates of future liabilities.

The strain extends beyond the missing middle. NSFAS disbursements have grown from R21.4 million in 1991 to about R54 billion (Nkabane, 2025), yet the Minister has said the scheme faces a R15 billion shortfall that could double within three years, that it still owed universities R10.49 billion in 2026 fees, and that an income-contingent loan is under consideration (Daily Investor, n.d.). Reform must make the core grant system affordable, not merely add a loan tier.

A grant is a direct public cost. A loan creates an asset, but its value depends on repayment, administration, interest subsidies and the share written off. Income-contingent loans insure borrowers against low earnings because repayments adjust to income (Barr et al., 2019), but this transfers earnings risk to the public budget, which must be recognised rather than assumed away.

3. A differentiated financing model

3.1 Protect grants for households with the least ability to pay

Households at or below R350,000 should keep needs-based bursaries covering tuition, approved accommodation, meals, materials and, where justified, transport. Students in severe poverty should not be pushed into debt, and a fair appeals process is needed because income can change through retrenchment, illness or bereavement.

3.2 Give missing-middle loans clear and affordable terms

For households above R350,000 and up to R600,000, government should offer income-contingent loans with terms published before acceptance. The following parameters are proposed for consultation and actuarial testing, not as existing NSFAS rules: a real interest rate of zero to 1%, with balances indexed to inflation; repayment of 3% of income above a protected threshold, rising to 5% for much higher earners; and cancellation of any balance after 25 years.

These terms are anchored to existing proposals and practice. Petersen and Burger (2021) suggest a sliding family-income scale mixing bursaries and loans, SARS collection, and a repayment period capped at, for example, 25 or 30 years. Australia collects 15 cents per dollar above A$67,000, up to A$125,000 (Australian Government Department of Education, n.d.). A lower South African rate reflects higher unemployment and earnings risk, but means slower repayment and larger write-offs, as Section 4 shows.

3.3 Make private finance possible without shifting excessive risk to students

Banks and investors are unlikely to make large unsecured student loans on commercial terms. The Heher Commission considered government-guaranteed loans from commercial banks, with government liable if graduates did not reach the repayment threshold (Commission of Inquiry into

Higher Education and Training, 2017), but a blanket guarantee could expose taxpayers to large losses. A blended facility is more controlled: a capped first-loss tranche or partial guarantee, with development-finance institutions and investors supplying the rest, conditional on responsible lending.

4. Costing and funding the model

The following figures are illustrative calculations from published numbers, not forecasts. The 2024 announcement allocated R3.8 billion to 31,884 students, about R119,000 each (own calculation from DHET, 2024). Supporting all 68,446 identified students at that average would mean about R8.2 billion of lending a year. The cost to government is only the part never recovered, which Table 1 shows under three recovery assumptions.

Table 1: Illustrative annual cost of the missing-middle loan tier

Scenario	Share of lending recovered	Cash lent per year (R billion)	Net subsidy cost per year (R billion)
Optimistic	80%	8.2	1.6
Central	60%	8.2	3.3
Pessimistic	40%	8.2	4.9

Source: author's calculations from DHET (2024). Recovery shares are assumptions, not forecasts.

Even in the central case the subsidy, about R3.3 billion a year, is roughly a fifth of the R15 billion shortfall the Minister cited (Daily Investor, n.d.). England forecasts that 55% of full-time undergraduate borrowers starting in 2025/26 will repay in full (Department for Education, 2026); this counts borrowers, not rand recovered, but shows that full repayment is not the norm. Only the expected write-off is a recurrent cost, provided the rest is financed and recovered.

Funding has four parts: seed capital from the National Skills Fund and SETAs (DHET, 2024), recycled through repayments; private and development finance through the capped facility, so that annual cash lending does not fall wholly on the fiscus; an open budget line for the subsidy; and published norms for fees and accommodation, since cost inflation raises grant and loan needs alike. The grant tier should be costed likewise using NSFAS data, which this essay lacks.

5. What international experience can—and cannot—teach South Africa

5.1 Australia: repayments linked to earnings

Australia's Higher Education Loan Program ties compulsory repayments to income and collects them through the tax system, insuring graduates against repayment hardship (Barr et al., 2019). It has since raised the threshold to A$67,000 and moved to marginal rates, so that earning more never reduces take-home pay (Australian Government Department of Education, n.d.). Norton (2024) notes that percentage-of-all-income repayment led some debtors to arrange their income below thresholds. In 2025 the government also introduced legislation to cut all balances by 20% (Australian Government Department of Education, 2025). South Africa should therefore use marginal rates from the start and fix write-off rules in law, because large loan books create pressure for forgiveness.

However, Australia's formal tax and employment systems cannot be assumed. Graduates may be unemployed, self-employed, informal or earning too little to repay, so the portfolio should be stress-tested against prolonged unemployment and low wages, self-employed graduates assessed through annual returns, and no graduate below the threshold left with punitive arrears.

5.2 England: recognise the subsidy in the loan

England's income-linked system shows that not all lending is recovered: the Department for Education estimates that 55% of full-time undergraduate borrowers starting in 2025/26, on Plan 5 terms, will repay in full (Department for Education, 2026). South Africa should publish cohort-level estimates of repayments, administrative costs and write-offs. Because SARS deductions may not reach graduates abroad, it should also require annual income declarations from emigrants and explore information-sharing with destination countries, while still allowing for non-recovery.

5.3 Chile: access must be matched by institutional funding

Chile shows the opposite risk: access policy outrunning institutional funding. Its 2016 tuition-free policy limited cost and scope, yet public universities argue that appropriations do not replace lost tuition revenue, and without more capacity free tuition is likely to crowd out low-income students (Delisle and Bernasconi, 2018). Student-side funding must be matched by institutional funding. A fuller study would add other middle-income and African schemes.

6. Protect universities and improve completion

Universities need reliable operating grants for staff, laboratories, libraries, residences and student support. If student aid is funded by squeezing block grants, access may rise while quality and capacity fall, so government should publish a multi-year framework distinguishing student aid from institutional subsidies. Completion matters equally because a loan pays for itself only if

students finish and earn: cohort graduation rates should be reported alongside funding data and used in forecasts. Universities should identify at-risk students early and provide tutoring, counselling and reliable accommodation, and a capped, pre-budgeted portion of a loan could convert to a grant on timely completion, adjusted for illness or caregiving, without encouraging institutions to pass unprepared students.

7. Anticipating objections

Three objections deserve answers. First, loans may reverse the gains of the fee-free movement. Grants remain for households below R350,000, repayments start only above a protected threshold and no arrears accumulate below it; the Minister describes the aim as making higher education free at the point of entry (Daily Investor, n.d.). Second, fee-free education could be pursued instead, but the Heher Commission found it unaffordable and recommended income-contingent loans (Commission of Inquiry into Higher Education and Training, 2017), and Chile shows further risks. Third, banks may not lend and graduates may not earn enough. The Banking Association South Africa was reported to be essentially uncommitted to the Heher proposal (Daily Maverick, 2017), hence the capped public facility, and repayment risk is why the loan tier carries a budgeted write-off and a pessimistic scenario.

8. Conclusion

This essay examined how South Africa can widen access without treating public resources as unlimited. Using government documents, official statistics and policy literature, it defined the problem, proposed and costed a differentiated model, drew lessons from Australia, England and Chile, and considered university funding, completion and objections. The most defensible approach combines grants for students who cannot reasonably repay, income-contingent loans for the missing middle, and structured private participation backed by capped public risk-sharing. The international evidence is useful but not directly transferable: Australia shows how marginal, income-linked collection protects low earners and how pressure for forgiveness builds; England shows why unrecovered loans must be budgeted; Chile shows that access must be matched by institutional funding; and South Africa must also allow for unemployment, informal earnings and emigration.

9. Recommendations

The central proposal is workable but not self-financing: on Table 1’s illustrative assumptions it would cost roughly R1.6 billion to R4.9 billion a year in unrecovered lending. Government should:

1. **Legislate three tiers with published terms.** Grants at or below R350,000, income-contingent loans up to R600,000 and full fees above, with a protected threshold and marginal rates set in law.
2. **Pilot before scaling.** Use the first-phase Comprehensive Student Funding Model cohort to track repayment and non-recovery, and publish results before extending loans.
3. **Build SARS collection capacity first.** Cover PAYE and self-employed graduates, with annual income reporting for borrowers abroad.
4. **Budget the subsidy openly.** Publish cohort-level repayment and write-off estimates and report the expected subsidy as a distinct budget line.
5. **Create a capped first-loss facility.** Combine limited public risk-sharing with development-finance and institutional capital, conditional on responsible lending.
6. **Protect operating grants and completion.** Separate student aid from institutional subsidies in a multi-year framework, and fund early-warning and support services.
7. **Control costs and review the terms.** Set published norms for fees and accommodation, and review thresholds, rates and the write-off period against repayment data.

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